



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 21, 2004

H.R. 3266 **Faster and Smarter Funding for First Responders Act of 2004**

As ordered reported by the House Committee on the Judiciary on June 16, 2004

SUMMARY

Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 3266 would cost about \$3.5 billion over the 2005-2009 period and an additional \$400 million after 2009. Enacting this bill would not affect direct spending or revenues.

H.R. 3266 would authorize the Secretary of the Department of Homeland Security (DHS) to change the criteria used to distribute funding for two existing first responder grant programs established after September 11, 2001—the State Homeland Security and the Urban Area Security Initiative grant programs. In addition, this bill would authorize the appropriation of \$3.4 billion in 2006 for first responder grants.

H.R. 3266 would authorize the DHS to contract with appropriate companies to improve security at those 501(c)3 nonprofit organizations that are determined to be most vulnerable to potential terrorist attacks. In addition, the bill would establish a new loan guarantee program for all nonprofit organizations that might need additional security enhancements to protect them from terrorist attacks. The bill also would establish a grant program for local law enforcement agencies to offset costs associated with increased security in areas with a high concentration of nonprofit organizations. Finally, the bill would establish a new Office of Community Relations and Civic Affairs to administer the new security program for nonprofit organizations, among other duties.

H.R. 3266 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Assuming the authorized amount is fully appropriated, the bill would increase funding for existing aid programs while changing conditions for receiving those funds; any costs incurred by state, local, or tribal governments would be voluntary.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3266 is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development).

	By Fiscal Year, in Millions of Dollars				
	2005	2006	2007	2008	2009
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
First Responder Grant Program					
Authorization Level	*	3,400	0	0	0
Estimated Outlays	*	510	1,020	918	578
Security Contracts for Nonprofit Organizations ^a					
Estimated Authorization Level	100	100	100	0	0
Estimated Outlays	25	75	100	75	25
Loan Guarantees for Nonprofit Organizations					
Estimated Authorization Level	13	13	13	0	0
Estimated Outlays	3	10	13	10	3
Law Enforcement Grants ^a					
Estimated Authorization Level	50	50	50	0	0
Estimated Outlays	12	38	50	38	12
Office of Community Relations and Civic Affairs ^a					
Estimated Authorization Level	5	5	5	0	0
Estimated Outlays	5	5	5	0	0
Total Changes					
Estimated Authorization Level	168	3,568	168	0	0
Estimated Outlays	45	638	1,188	1,041	618

NOTE: * = Costs of less than \$500,000 for administrative changes that would be made by the bill.

a. The 2006 and 2007 levels assume these programs continue at the level authorized for 2005.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 3266 will be enacted near the end of fiscal year 2004 and that the necessary amounts will be appropriated in each year starting in 2005.

Estimates of outlays are based on historical spending patterns of similar programs and information from the Department of Homeland Security. CBO estimates that implementing H.R. 3266 would cost about \$3.5 billion over the 2005-2009 period and an additional \$400 million after 2009.

First Responder Grants

Almost \$10 billion has been appropriated for first responder grants since fiscal year 2003, including about \$3 billion in fiscal year 2004. The Office of Domestic Preparedness (within DHS) derives its primary authority to distribute grants to states and localities to prepare and respond to terrorism from the USA Patriot Act (Public Law 107-56). That law authorized the appropriation of such sums as necessary for first responder grants through fiscal year 2007. H.R. 3266 would replace this authorization of appropriations with a one-year authorization of \$3.4 billion in fiscal year 2006.

For this estimate, CBO assumes that states would need to update their State Homeland Security Plans for approval by DHS to reflect new grant requirements. After that update, we expect that spending would follow historical spending patterns for existing state and local grant programs for emergency management activities. CBO estimates that implementing the first responder grant program would cost about \$3 billion over the 2006-2009 period and nearly \$400 million after 2009.

Under the State Homeland Security grant program, DHS distributes three-quarters of one percent of the amount appropriated for the program to each state. The remaining funds are distributed to states based on population. The Urban Area Security Initiative grant program provides funding to high-threat areas of the country. Under H.R. 3266, DHS would consolidate these two existing programs and distribute 0.25 percent of the grants to each state, 0.08 percent to U.S. territories, and 0.25 percent to eligible tribes. The rest of the funding would be distributed based on threats, vulnerabilities, and risk assessments for each state and locality. H.R. 3266 also would require states to disburse grant money to local governments within 45 days of receiving funds from the federal government, or states would face penalties as well as pay 25 percent of the total cost of the grant activities.

Security Contracts for Nonprofit Organizations

H.R. 3266 would authorize the DHS to contract with appropriate companies to improve security at those 501(c)(3) nonprofit organizations that are determined to be most vulnerable to potential terrorist attacks. Nonprofit organizations would have to meet certain criteria,

such as providing services to at least 500 persons each year at a particular site, to be eligible for assistance under this bill. H.R. 3266 would authorize the appropriation of \$100 million in 2005 and such sums as is necessary in 2006 and 2007 for these contracts. For this estimate, CBO assumes that amounts authorized to be appropriated in 2006 and 2007 would be equal to the 2005 authorization level. Assuming appropriation of the authorized funds, CBO estimates that implementing these security enhancement contracts would cost \$300 million over the 2005-2009 period.

Loan Guarantees for Nonprofit Organizations

This legislation also would establish a new loan guarantee program to improve security at nonprofit organizations. Under this new loan guarantee program, the federal government would insure loans, with at least a 25-year repayment term, made to such nonprofits to support security enhancements or to provide related training to employees. The legislation does not specify that any guarantee fees would be charged to the nonprofits or that there would not be any limitation on the percentage of the loan that would be insured by the federal government. Consequently, CBO assumes that DHS would insure up to 100 percent of the loan value and that the borrower would not be charged any guarantee fees.

This legislation would authorize the appropriation of such amounts as necessary for the cost of loan guarantees for 2005 through 2007 and would authorize a \$250 million limitation on the cumulative value of the loans that may be guaranteed for each fiscal year. The new loan program would be considered a discretionary federal credit program that requires appropriation action each year to establish this loan limitation and to provide a credit subsidy appropriation for the cost of such loan guarantees.

Based on information from various nonprofit organizations, CBO assumes that nonprofit organizations face similar financial risks to those of small businesses. Using the Small Business Administration 7 (a) program (i.e. the general business loan program) as a proxy, CBO assumes that, like small businesses, the default rate for loans made to nonprofit organizations would be about 10 percent and that recoveries on such losses would be about 50 percent. Using those assumptions, CBO estimates that the subsidy rate for the new loan guarantee program would be about 5 percent, and implementing this bill would cost \$39 million over the next five years, assuming appropriation of the necessary amounts. (Note: the 7(a) program has a smaller net subsidy because it includes up-front guarantee fees that offset some of the default costs.)

Law Enforcement Grants

H.R. 3266 would authorize DHS to provide grants to local law enforcement agencies in areas where there is a high concentration of nonprofit organizations. These grants would pay for increased costs associated with protecting these organizations. H.R. 3266 would authorize the appropriation of \$50 million in 2005 and such sums as is necessary in 2006 and 2007 for these grants. For this estimate, CBO assumes that the amount authorized to be appropriated in 2006 and 2007 would be equal to the 2005 authorization level. Assuming appropriation of the authorized funds, CBO estimates that providing these grants would cost \$150 million over the 2005-2009 period.

Office of Community Relations and Civic Affairs

This bill would establish a new office within DHS to administer the new security enhancement program for nonprofit organizations. In addition, the office would coordinate community relations efforts for the department, serve as the liaison to nonprofit, social services, and faith-based organizations, and assist in coordinating the needs of those communities for the department's Citizen Corps program. H.R. 3266 would authorize the appropriation of \$5 million in 2005 and such sums as necessary in 2006 and 2007 for this office. For this estimate, CBO assumes that amounts authorized to be appropriated in 2006 and 2007 would be equal to the 2005 authorization level. Assuming appropriation of the authorized funds, CBO estimates that this new office would cost \$15 million over the 2005-2009 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3266 contains no intergovernmental or private-sector mandates as defined in UMRA but would make several changes to existing grant programs. First, it would consolidate at least two current programs—the State Homeland Security Grant and the Urban Area Security Initiative—and authorize the appropriation of \$3.4 billion in fiscal year 2006. Second, it would change how those funds are allocated. While some states would receive less funding than in previous years and others would receive more, assuming authorized funds are fully appropriated, total funding would increase. This bill also would expand eligible activities to include covering the costs of additional personnel during heightened threat alerts and training activities.

This bill also would authorize DHS to transfer funds directly to the local recipients, reduce the portion of the grant retained by the state, or impose additional restrictions if states fail to

provide funds to local first responders in a timely manner. According to the grant requirements, states would be required to certify that they have provided 80 percent of the funds within 45 days of receipt. Funds that states may lose would be allocated to local jurisdictions. Any costs incurred by state, local, or tribal governments as a result of those changes to the grant programs would be voluntary.

Other provisions of the bill would require DHS to create, with input from local first responders and trade representatives, voluntary standards for equipment and training for first responders. The bill also would require DHS to revise the Homeland Security Advisory System to include geographic and economic-sector designations.

PREVIOUS CBO ESTIMATES

On July 16, 2003, CBO transmitted a cost estimate for S. 1245, the Homeland Security Grant Enhancement Act of 2003, as ordered reported by the Senate Committee on Governmental Affairs on June 17, 2003. On September 9, 2003, CBO transmitted a cost estimate for S. 930, the Emergency Preparedness and Response Act of 2003, as ordered reported by the Senate Committee on Environment and Public Works on July 30, 2003. Both bills would authorize the appropriation of different grant amounts for first responders. S. 930 also would authorize grants for urban search and rescue task forces.

On March 30, 2004, CBO transmitted a cost estimate for H.R. 3266 as ordered reported by the House Select Committee on Homeland Security on March 18, 2004. On June 8, 2004, CBO transmitted a cost estimate for H.R. 3266 as ordered reported by the House Committee on Energy and Commerce on June 3, 2004. The versions of the legislation approved by those two committees are similar, and the cost estimates are identical.

On June 14, 2004, CBO transmitted a cost estimate for H.R. 3266, the Faster and Smarter Funding for First Responders Act of 2004, as ordered reported by the House Committee on Transportation and Infrastructure on June 2, 2004. This version would authorize the appropriation of funds over the 2006-2009 period, while the other versions of H.R. 3266 would authorize funding only for 2006.

The version approved by the House Committee on the Judiciary is similar to the version approved by the Select Committee on Homeland Security, but it would guarantee minimum funding for states, territories, and tribes. In addition, the version approved by the House Committee on the Judiciary includes new grant and loan guarantee programs to enhance security at high-risk nonprofit organizations. These new programs would cost about \$500 million over the 2005-2009 period.

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